

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 NEA-06 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01

SIL-01 L-02 H-01 PA-01 PRS-01 USIA-06 FEA-01 INT-05

OES-02 SWF-01 AGR-05 /091 W

----- 087985

R 130600Z NOV 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 5264

INFO AMCONSUL HONG KONG

AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY SINGAPORE

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HONG KONG PASS TREASURY ATTACHE

EO 11652: N/A

TAGS: EFIN EALR ID

SUBJ: GOI AND PERTAMINA FINANCES

REF: JAKARTA 12300

1. FINANCIAL DATA CONTINUE TO SHOW LOWER FOREIGN EXCHANGE RESERVE INCREMENTS THAN EMBASSY/USAID PREVIOUSLY PROJECTED. FOLLOWING \$800 MILLION IN OIL PAYMENTS IN JUNE AND JULY 1974, RESERVES SHOW STEADY DECLINE FROM PEAK \$1,864 MILLION JULY 21 TO \$1,589 MILLION BY MID OCTOBER.

2. NEW OIL PAYMENTS BEGAN SECOND HALF OCTOBER. GOI RESERVES FOR FIRST TIME NOW SLIGHTLY EXCEED \$2 BILLION

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MARK, IF ONLY BRIEFLY. NO BASIS YET FOR PREDICTING

EXTENT OF RESERVE DECLINE LIKELY FOR NOVEMBER-DECEMBER, BUT SEASONAL FACTORS, INCLUDING CONCENTRATED DEBT PAYMENTS AT END OF CY TYPICALLY MAKE THIS HIGH QUARTER FOR FX EXPENDITURES. MOREOVER, OUR SOURCES ADVISE GOI PLANS AMBITIOUS SELF-FINANCED PROJECT IMPORT FOR SECOND HALF FY 74/75 PLUS PAYMENTS FOR COMMODITY STOCK BUILD-UPS CONTRACTED IN CURRENT QUARTER.

3. EMBASSY UNDERSTANDS THAT ROUGHLY ONE THIRD OF RECENT \$275 MILLION FX DECLINE RESULTS FROM OUTLAYS TO COVER MAJOR PROJECT COST OVERRUNS, AND TO CONSTRUCT HIGH PRIORITY CAKUNG BONDED WAREHOUSE PROJECT FOR STORAGE OF ESSENTIAL COMMODITY STOCK AND AS TRANSFER DEPOT TO RELIEVE CONGESTION AT TANJUNG PRIOK PORT.

4. SHORT-TERM FINANCIAL SITUATION IN OIL SECTOR ALSO ADVERSELY AFFECTS GOVERNMENT FOREIGN EXCHANGE POSITION. THESE STEM FROM THREE SOURCES: (A) SMALLER US AND FOREIGN BANKS, AS PART OF WORLD-WIDE RETRENCHING, UNWILLING TO RENEW SOME OF \$500 MILLION IN SHORT TERM CREDITS GRANTED PERTAMINA LAST YEAR; (B) SOME SHORTFALL IN PRODUCTION-SHARING EARNINGS AND NEED TO EXTEND LONGER CREDIT TERMS TO SOME BUYERS HAVE REDUCED AND DELAYED PERTAMINA CASH INFLOW; (C) PRESSURES TO KEEP MOVING ON ITS MAJOR PROJECTS (EG KRAKATAU STEEL AND BANTAM ISLAND), FOR WHICH SOME LONG-TERM FINANCING ARRANGEMENTS HAVE NOT MATERIALIZED, PUT ADDITIONAL STRAIN ON PERTAMINA LIQUIDITY. AS RESULT, GOI HAS APPROVED PERTAMINA DELAY IN MAKING CURRENTLY DUE OIL PAYMENTS. (SHORTFALL IN SEPTEMBER OF \$200 MILLION MAY INVOLVE MORE THAN THESE PAYMENT DELAYS). PERTAMINA

NOW ALSO ARRANGING DELAY IN PAYMENTS TO SOME SUPPLIERS. WE UNDERSTAND GENERAL IBNU CONCENTRATED PRIMARILY ON PERTAMINA'S FINANCING NEEDS DURING RECENT VISIT TO NEW YORK. FINANCIAL SOURCES EXPECT IBNU CAN WITHOUT UNDUE DIFFICULTY OR DELAY RAISE NEEDED SHORT-TERM MONEY TO BRIDGE PRESENT LIQUIDITY PROBLEMS, IF HE IS WILLING TO PAY HIGHER THAN ACCUSTOMED MARGINS OVER PRIME. WE EXPECT HE WILL FIND THIS ROUTE LESS ONEROUS

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THAN SEEKING MORE RELIEF FROM GOI FINANCE MINISTRY. PERTAMINA NOW EXPLORING NEW LONG-TERM PROJECT FINANCING SOURCES WHICH MAY BRING ADDED RELIEF.

5. IF CONTACTED BY BUSINESSMEN EXPRESSING CONCERN, DEPARTMENT AND AMEMBASSY SINGAPORE MAY WISH TO DRAW ON BACKGROUND PARA 4 ABOVE TO ALLAY ANY FEARS THAT PERTAMINA MAY NOT BE GOOD FOR ITS FINANCIAL

OBLIGATIONS OR FACE OTHER THAN TEMPORARY FINANCIAL
DIFFICULTIES.
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